

Message Text

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12

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-02

PA-02 PRS-01 USIA-15 H-02 /100 W

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R 071700Z MAR 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC 9916

INFO USMISSION EC BRUSSELS

AMCONGEN MILAN

AMCONGEN NAPLES

USMISSION OECD PARIS

UNCLAS ROME 3405

E.O. 11652: N/A

TAGS: EFIN IT

SUBJ: SLIGHT REDUCTION IN ITALIAN PRIME RATE TO 17.25 O/O

REF: A. ROME 14826 OF OCTOBER 25, 1974

B. ROME 2140 OF FEBRUARY 13, 1975

1. ACCORDING TO MILAN FINANCIAL DAILY "IL SOLE-24 ORE", ITALIAN BANKING ASSOCIATION ON MARCH 6 ANNOUNCED AGREEMENT BY BANK CARTEL TO LOWER INTEREST RATE APPLICABLE TO BORROWERS BY AT LEAST ONE PERCENTAGE POINT (E.G., FROM 18.25 TO 17.25 PERCENT FOR PRIME BORROWERS), WITH EFFECT FROM APRIL 1, 1975. BANK CARTEL DECISION WAS BASED ON RECENT RECOMMENDATIONS OF BANKING ASSOCIATION TECHNICAL SUB-COMMITTEE AND REPRESENTS COMPROMISE BETWEEN SOME CARTEL MEMBERS (MAINLY LARGE BANKS), WHICH REPORTEDLY WISHED TO STRICTLY LIMIT REDUCTION IN PRIME RATE, AND OTHER MEMBERS (MAILY SMALL BANKS), WHICH SOUGHT REDUCTION IN PRIME RATE OF FROM 1.5 TO 1.75 PERCENT.

2. MODEST INTEREST RATE REDUCTIONS ARE BEING CRITICIZED

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BY FINANCIAL PRESS AND BY BUSINESS COMMUNITY AS INSUFFICIENT.

BANKS, IN REPLY, ARGUE THAT LARGE DIFFERENTIAL BETWEEN CURRENT INTEREST PAID ON DEPOSITS AND CURRENT INTEREST CHARGED TO CLIENTS IS MORE APPARENT THAN REAL, SINCE BANKS STILL HAVE LARGE PORTFOLIOS OF OLDER, LOWER INTEREST RATE LOANS AND BECAUSE EARNINGS ON ALL REQUIRED PORTFOLIO INVESTMENTS ARE RELATIVELY LOW. COMMENTATORS NOTE THAT MODEST REDUCTION IN PRIME RATE WAS MAINLY FORCED UPON BANKS BY PRESSURE OF PUBLIC OPINION AND BY MORAL SUASION BY ITALIAN MONETARY AUTHORITIES.VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INTEREST RATES, BANKS, CARTELS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ROME03405
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750081-0811
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750372/aaaacmkz.tel
Line Count: 69
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 ROME 14826, 75 OF OCTOBER 25, 75 1974
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 29 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 MAY 2003 by RuthemTJ>; APPROVED <25 FEB 2004 by buchant0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SLIGHT REDUCTION IN ITALIAN PRIME RATE TO 17.25 O/O
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006